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Justin M. Jacobson

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## CABLEVISION'S REMOTE DV-R SYSTEM AND A SOLUTION FOR THE DIGITAL-RECORDING AGE

*Justin M. Jacobson\**

### I. INTRODUCTION

In early 2006, Cablevision unveiled its plan to release a new Remote Digital Video Recorder System ("RS-DV-R").<sup>1</sup> This RS-DV-R system, provided by Cablevision to its current subscribers for an additional monthly fee, would enable these subscribers to download a "simple software upgrade" to add a recording function to their existing cable-boxes.<sup>2</sup> This upgrade would permit users to record any live television program transmitted by Cablevision, and store a copy of that transmission on Cablevision's remote server.<sup>3</sup> Because the copy is stored on Cablevision's remote server, the subscriber would not need to purchase any additional "Set-Top" box Digital Video Recorder equipment ("STS-DV-R") to make the recording,<sup>4</sup>

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\* Juris Doctor Candidate, May 2011, Touro College, Jacob D. Fuchsberg Law Center. Special thanks to Professor Rena Seplowitz for her valuable assistance and to my father for all his guidance and support throughout my life.

<sup>1</sup> *Twentieth Century Fox Film Corp. v. Cablevision Sys. Corp.*, 478 F. Supp. 2d 607, 609 (S.D.N.Y. 2007), *rev'd sub nom.*, *The Cartoon Network, L.P., L.L.L.P. v. CSC Holdings, Inc.*, 536 F.3d 121, 124 (2d Cir. 2008), *cert. denied*, *Cable News Network, Inc. v. CSC Holdings, Inc.*, 129 S. Ct. 2890 (2009). *See also Fox*, 478 F. Supp. 2d at 610 (stating that Cablevision "own[s] and operate[s] cable television systems"); Tim Arango, *Cablevision's Strategy Includes A Possible Spinoff*, N.Y. TIMES, Aug. 6, 2008, at C3 (explaining that Cablevision is owned by the Dolan family, who also own the New York Knicks, New York Rangers, Madison Square Garden, Radio City Music Hall, Newsday Newspaper, and Cable channels AMC, IMC, and Sundance Channel, and provides cable services to "nearly three million homes in New York, New Jersey, and Connecticut").

<sup>2</sup> Brian Stelter, *A Ruling May Pave The Way For Broader Use of DVR*, N.Y. TIMES, Aug. 5, 2008, at C8.

<sup>3</sup> *Id.*

<sup>4</sup> *DVR for iO*, CABLEVISION, <http://www.optimum.com/io/dvr/index.jsp> (last visited Apr. 6, 2010) (explaining that a "Set-Top" box or "STS-DV-R" is a separate recording device that permits a user to record any live television transmission and store a copy of the program on the STS-DV-R's *internal* hard-drive).

whereas an individual who previously wanted to record live television was required to purchase additional equipment and store the recorded copy on that additional equipment.<sup>5</sup>

Cablevision is not alone in its plans to release this new technology; other cable service providers such as Comcast, TimeWarner Cable, and possibly Verizon FiOS also plan to introduce RS-DV-R systems similar to Cablevision's.<sup>6</sup> Additionally, STS-DV-R use in the United States has increased dramatically over the past few years.<sup>7</sup> The increase in STS-DV-R use, along with the ease of upgrading existing cable-boxes to Cablevision's new RS-DV-R system, and the intention of many other cable service providers to offer similar remote recording systems, pose significant concerns for copyright owners, whose "economic interests . . . depend on [the] . . . ability to monetize their creative works."<sup>8</sup> Attempting to protect their interests, Twentieth Century Fox, Universal, CBS, and other large copyright content owners brought a direct infringement suit to enjoin Cablevision from distributing the new RS-DV-R system without first acquiring appropriate licensing.<sup>9</sup> The copyright owners contended that Cablevision's RS-DV-R system directly infringed upon two of the exclusive rights afforded to copyright owners under the 1976 Copyright Act ("Copyright Act"):<sup>10</sup> the right to duplicate and the right to publicly perform their copyrighted works.<sup>11</sup>

In *Cable News Network, Inc. v. CSC Holdings, Inc.*,<sup>12</sup> the district court held that Cablevision had violated the copyright owners' exclusive rights under the Copyright Act and required Cablevision to negotiate compulsory licenses for the release of the new RS-DV-R system.<sup>13</sup> On appeal, the Second Circuit reversed the district court's

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<sup>5</sup> Stelter, *supra* note 2.

<sup>6</sup> Marguerite Reardon, *Supreme Court Declines To Hear Cable DVR Case*, CNET NEWS (Jan. 13, 2009), [http://news.cnet.com/8301-1023\\_3-10141706-93.html](http://news.cnet.com/8301-1023_3-10141706-93.html).

<sup>7</sup> Stelter, *supra* note 2 (noting that initially, in 2006, when suit was originally filed by Fox, STS-DV-Rs were only in "1 out of 14 homes with television in the United States;" however, today in the United States, STS-DV-Rs are "present in one in four homes").

<sup>8</sup> Brief for Screen Actors Guild, Inc. & Writers Guild of Am., West, Inc. as Amici Curiae Supporting Petitioners, *Cable News Network, Inc. v. CSC Holdings, Inc.*, 129 S. Ct. 2890 (2008) (No. 08-448), 2008 WL 4843616 at \*3 [hereinafter *Screen Actors Guild Brief*].

<sup>9</sup> *Fox*, 478 F. Supp. 2d at 609.

<sup>10</sup> U.S. Copyright Act, 17 U.S.C.A. § 101, *et. seq.* (West 2009).

<sup>11</sup> *Id.* at 617.

<sup>12</sup> *Fox*, 478 F. Supp. 2d 607.

<sup>13</sup> *Id.* at 624.

decision<sup>14</sup> and the Supreme Court denied certiorari.<sup>15</sup> Thus, Cablevision was not required to negotiate a licensing fee for providing its new copying system, and the copyright owners were denied an opportunity to “monetize their creative works.”<sup>16</sup>

This Comment examines the evolution of copyright infringement liability for the manufacturing and commercial distribution of potentially infringing technologies from video-cassette recorders to newer technologies such as the RS-DV-R system. Part II analyzes the relevant framework that the courts have articulated when determining a third-party’s direct copyright infringement liability for selling equipment that potentially infringes another’s copyright. Part III examines the district court and Second Circuit decisions regarding Cablevision’s potential direct copyright infringement liability for commercially distributing its new RS-DV-R system without first acquiring a license from the copyright owner. Part IV discusses the potential for additional advertising revenue Cablevision may obtain based on viewership data stored on its servers, and the potential long-term impact of the Second Circuit’s decision on copyright owners’ finances, especially individuals who invest and create copyrighted works in the entertainment industry, based on a decline in Video On-Demand system (“VOD”) license fees and royalties from DVD sales.

Finally, this Comment concludes that the Second Circuit’s blue-print enables both individuals and corporations to avoid paying licensing fees to copyright owners by creating and encouraging new automated copyright distribution systems that conform to the parameters articulated by the Second Circuit which require no licensing. Critical of the Second Circuit’s approach, this Comment proposes that either the Copyright Royalty Judges must authorize an increase in the current statutory license fee rates that cable systems currently pay or Congress must establish new statutory fees paid by cable systems which provide recording systems to their subscribers to compensate the creators for the losses of revenues from other sources, and to continue to effectively promote and protect the arts.<sup>17</sup>

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<sup>14</sup> *The Cartoon Network*, 536 F.3d at 140.

<sup>15</sup> *Cable News Network, Inc.*, 129 S. Ct. 2890.

<sup>16</sup> *Screen Actors Guild Brief*, *supra* note 8, at \*3.

<sup>17</sup> U.S. CONST. art. I, § 8, cl. 8.

## II. THE EVOLUTION OF TECHNOLOGICAL COPYRIGHT INFRINGEMENT

### A. Copyright Infringement—Direct and Third-Party Liability

The 1976 Copyright Act represented the first significant change in United States copyright law in nearly a century.<sup>18</sup> The Act has been updated several times, including the Digital Millennium Copyright Act of 1998 (“DMCA”),<sup>19</sup> which allowed United States copyright law to adapt to new technologies as they emerged with the expansion of the internet.

The Copyright Act grants copyright owners the exclusive right: (1) to reproduce copies of their works; (2) “to prepare derivative works based upon” their original work; (3) to distribute copies of their work publicly; (4) to perform their work publicly; (5) “to display the copyrighted work publicly;” and (6) to perform a digital audio-transmission (sound recording) publicly.<sup>20</sup> If an individual uses the copyrighted work of another without permission, in any manner, the owner may initiate a suit for infringing upon the owner’s exclusive rights in the work, unless the use is exempted by fair use or another defense.<sup>21</sup>

In the United States, a work must be registered or pre-registered with the United States Copyright Office before a party can institute a claim for copyright infringement.<sup>22</sup> Generally, once a work is registered or pre-registered, a plaintiff can bring a claim of direct copyright infringement or claims of vicarious or contributory

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<sup>18</sup> See U.S. Copyright Act, 17 U.S.C.A. § 101, *et. seq.*

<sup>19</sup> Digital Millennium Copyright Act, 17 U.S.C.A. § 512(j)(1) (West 2009).

<sup>20</sup> *Id.* § 106(1)-(6).

<sup>21</sup> *Id.* § 501(b); *id.* § 107 (creating a fair use exemption from copyright infringement liability permitting an individual to use and reproduce another’s copyrighted work without permission for limited purposes including “criticism, comment, news reporting, teaching, . . . scholarship, or research”). The court considers the potential user’s fair use based on:

(1) [T]he purpose and character of the use, including whether [the] use is . . . commercial . . . or is for [a] nonprofit educational purpose[]; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work.

17 U.S.C.A. § 107.

<sup>22</sup> *Id.* § 411(a).

infringement.<sup>23</sup> Direct infringement is established by showing of valid ownership of a copyright and a violation of one of the exclusive rights afforded to the copyright owner.<sup>24</sup> For a work that is registered within five years of publication, the Copyright Act mandates that possession of a valid United States Copyright Office registration certificate shall constitute *prima facie* evidence for establishing valid ownership of a copyrighted work.<sup>25</sup>

Deciding whether the owner's exclusive right to reproduce a copy has been infringed requires proof that the original work's copyrightable expression was taken.<sup>26</sup> To make this determination, the court looks at any substantial similarities existing between the works,<sup>27</sup> and whether the alleged infringer had access to the disputed copyrighted work.<sup>28</sup> If the works' protected expressions are substantially similar and there is evidence of the alleged infringer's access to the original work, infringement may be found.<sup>29</sup> Even when no proof of access to the original work exists, infringement may be found if the works are so strikingly similar as to rule out the possibility of independent creation.<sup>30</sup>

Once valid ownership and copying are established, the court then decides whether the copy is an infringing one based on what a lay observer would believe.<sup>31</sup> If the subsequent work is found to be infringing, the work's creator may be liable for direct copyright infringement.<sup>32</sup>

A copyright owner may also institute a claim against a third-

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<sup>23</sup> *Id.* § 501(b).

<sup>24</sup> *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co., Inc.*, 499 U.S. 340, 361 (1991); 17 U.S.C.A. § 501(b).

<sup>25</sup> 17 U.S.C.A. § 410(c) (West 2009). *See also* *Corbis Corp. v. Amazon.com, Inc.*, 351 F. Supp. 2d 1090, 1113 (W.D. Wash. 2004) (stating that the "[e]xistence of a certificate of registration from the United States Copyright Office . . . is *prima facie* evidence of a valid copyright").

<sup>26</sup> *Hoehling v. Universal City Studios, Inc.*, 618 F.2d 972, 977 (2d Cir. 1980) (citing *Arnstein v. Porter*, 154 F.2d 464, 468 (2d Cir. 1946)).

<sup>27</sup> *Id.* at 977 (citing *Nichols v. Universal Pictures Corp.*, 45 F.2d 119, 121 (2d Cir. 1930)) (stating that generally, "wrongful appropriation is shown by proving a 'substantial similarity' of copyrightable expression").

<sup>28</sup> *Arnstein*, 154 F.2d at 468.

<sup>29</sup> *Id.*

<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> *Id.* at 468-69.

party based on vicarious or contributory liability.<sup>33</sup> A third-party infringes “vicariously by profiting from [the] direct infringement [of another] while declining to exercise a right to stop or limit” the infringing conduct.<sup>34</sup> A third-party may be contributorily liable for the direct infringement of another if the third-party has “knowledge of the infringing activity, [and] induces, causes or materially contributes to the infringing conduct [by] another.”<sup>35</sup> A third-party may also be liable for contributory copyright infringement if it provides or distributes “machinery or goods that facilitate . . . infringement”<sup>36</sup> and have no “commercially significant noninfringing uses.”<sup>37</sup>

### B. *Sony Corp.*—Videocassette Recorders (“VCRs”)

As technologies evolve, so do new issues with respect to copyright infringement liability. A new problem arose with the advent of home video recording. Home video recording occurs when an individual utilizes a VCR machine to record and create a personal copy of a copyrighted program transmitted on public television.<sup>38</sup> This exploitation of copyrighted works set the stage for the Supreme Court’s landmark decision in *Sony Corp. of America v. Universal City Studios, Inc.*<sup>39</sup>

In *Sony Corp.*, the copyright owners of television programs broadcasted on public television airwaves brought a contributory infringement suit against Sony for manufacturing and commercially distributing millions of Sony Betamax videocassette recorders.<sup>40</sup> The Sony Betamax VCR permitted an individual to watch live television

<sup>33</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 929-30 (2005).

<sup>34</sup> *Id.* at 930 (citing *Shapiro, Bernstein & Co., Inc. v. H.L. Green Co., Inc.*, 316 F.2d 304, 308 (2d Cir. 1963)) (holding a third-party vicariously liable for the “bootleg[ged]” records sold by a record store that the third-party had received “10% or 12%” of every sale from every record from the store, including a percentage of both legal and bootlegged records sold by the store).

<sup>35</sup> *Gershwin Publ’g Corp. v. Columbia Artists Mgmt., Inc.*, 443 F.2d 1159, 1162 (2d Cir. 1971). *See also Grokster, Ltd.*, 545 U.S. at 937-38 (finding Grokster liable for contributory infringement due to the Grokster software developers’ targeting, advertising, and encouraging former Napster users to use Grokster’s new software to directly infringe on others’ copyrighted works).

<sup>36</sup> *Matthew Bender & Co., Inc. v. West Publ’g Co.*, 158 F.3d 693, 706 (2d Cir. 1998).

<sup>37</sup> *Sony Corp. of Am. v. Universal City Studios, Inc.*, 464 U.S. 417, 442 (1984).

<sup>38</sup> *Id.* at 419-20.

<sup>39</sup> 464 U.S. 417.

<sup>40</sup> *Id.* at 419-20.

while simultaneously recording another program for subsequent viewing.<sup>41</sup> The actual video cassettes that contained the recorded copyrighted programs could be erased and reused.<sup>42</sup> The Sony Betamax VCR also allowed the user to fast-forward through the programs, “enabling a viewer to omit a commercial advertisement from the recording . . . .”<sup>43</sup>

The copyright owners claimed that numerous individuals in the general public who purchased VCRs used them to record and produce their own copies of copyrighted televised works without permission and in violation of the copyright owners’ exclusive rights.<sup>44</sup> The copyright owners brought their contributory infringement claim against Sony, but did not attempt to directly sue any individual Betamax users.<sup>45</sup> These copyright owners argued that Sony was liable for contributory infringement because Sony was “supplying the ‘means’ to accomplish an infringing activity and encouraging that activity through [its] advertisement[s].”<sup>46</sup> The Court held that since Sony only supplied the means to make the copies, it was not liable for contributory infringement because the copyright owners were the ones who actually supplied the “Betamax consumers with [the] works” by broadcasting them on free public television airwaves.<sup>47</sup>

Secondly, the copyright owners argued that Sony was liable for contributory copyright infringement due to an “ongoing relationship between the direct infringer [consumer] and the contributory infringer [Sony] at the time the infringing conduct occurred.”<sup>48</sup> The Court also rejected this argument stating that contributory liability is only permissible when “the ‘contributory’ infringer was in a position to control the use of copyrighted works by others and [the infringer] had authorized the [infringing] use without permission from the copyright owner.”<sup>49</sup> The Court ruled that this theory was inapplicable

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<sup>41</sup> *Id.* at 422.

<sup>42</sup> *Id.*

<sup>43</sup> *Id.* at 423.

<sup>44</sup> *Sony Corp.*, 464 U.S. at 419-20; 17 U.S.C.A. § 106(1).

<sup>45</sup> *Compare Sony Corp.*, 464 U.S. at 434, with *Sony Music Entm’t, Inc. v. Does 1-40*, 326 F. Supp. 2d 556, 558 (S.D.N.Y. 2004) (arguing that “each of the forty Doe defendants” who used a “‘peer-to-peer’ . . . file copying network—to download, distribute to the public, or make available for distribution” Sony’s copyrighted works—should be liable to Sony).

<sup>46</sup> *Sony Corp.*, 464 U.S. at 436.

<sup>47</sup> *Id.*

<sup>48</sup> *Id.* at 437.

<sup>49</sup> *Compare id.*, with *Gershwin Publ’g Corp.*, 443 F.2d at 1162-63 (finding Gershwin lia-



because “[t]he only contact between Sony and the users of the Beta-max . . . [had] occurred at the moment of [the] sale” of the VCR and Sony was not in a position to control the VCR purchaser’s future actions.<sup>50</sup> The Court also stated that Sony was not liable for contributory infringement because no volitional conduct on the part of any Sony employee had a “direct involvement [or impact on] the alleged[] infringing activity” done by a VCR purchaser.<sup>51</sup>

Finally, the copyright owners argued that Sony was liable for contributory infringement for selling the “equipment with constructive knowledge of the fact that their customers may use that equipment [VCR] to make unauthorized copies of copyrighted material.”<sup>52</sup> The Court again rejected the owners’ argument because “no precedent in the law of copyright [exists] for the imposition of vicarious liability on such a theory.”<sup>53</sup>

Ultimately, the Supreme Court’s decision on Sony’s contributory infringement liability depended on whether the Betamax VCR was capable of any “commercially significant noninfringing uses.”<sup>54</sup> The Court relied on patent law’s “staple article or commodity of commerce”<sup>55</sup> doctrine and ruled that the “sale of [a] copying [machine] . . . does not constitute contributory infringement if the product is widely used for legitimate, unobjectionable purposes.”<sup>56</sup> The Court emphasized that it “need not explore *all* the different potential uses of the machine” when determining potential infringing uses, but only whether the technology had a “significant number” of non-infringing uses.<sup>57</sup>

The Court determined that time-shifting<sup>58</sup> was the “primary

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ble for contributory infringement because Gershwin had “actual knowledge” that the artists it was managing were performing copyrighted works without appropriate licensing, “was in a position to police the infringing conduct of its artists,” and “derived substantial benefit [booking fee] from the actions of the primary infringers [the artists]”).

<sup>50</sup> *Sony Corp.*, 464 U.S. at 437-38.

<sup>51</sup> *Id.* at 438 (quoting *Universal City Studios, Inc. v. Sony Corp. of Am.*, 480 F. Supp. 429, 460 (C.D. Cal. 1979)).

<sup>52</sup> *Id.* at 439.

<sup>53</sup> *Id.*

<sup>54</sup> *Id.* at 442.

<sup>55</sup> *Sony Corp.*, 464 U.S. at 440 (quoting 35 U.S.C.A. § 271(c) (West 2009)).

<sup>56</sup> *Id.* at 442.

<sup>57</sup> *Id.* (emphasis in original).

<sup>58</sup> *Id.* at 423 (stating that “[t]ime-shifting enables viewers to see programs they otherwise would miss because they are not at home, are occupied with other tasks, or are viewing a program on another station at the time of a broadcast that they desire to watch”).

use of the machine.”<sup>59</sup> The Court ruled that “time-shifting is fair use;” thus, exempting any direct copyright infringement liability for an individual who copied works from the public airwaves using a VCR without consent from the copyright proprietor.<sup>60</sup> Sony demonstrated that “substantial numbers of copyright holders who license their works for broadcast on free television would not object to having their broadcasts time-shifted by private viewers”<sup>61</sup> and that “time-shifting would cause . . . [ ]minimal harm to the potential market . . . value of . . . copyrighted works.”<sup>62</sup> Sony was not held liable for contributory infringement because the VCR was “capable of substantial noninfringing uses” since the underlying and dominant use—time-shifting by the VCR user—was not considered an infringement.<sup>63</sup> The Court denied a rehearing on this issue, laying the foundation for subsequent infringement cases based on a third-party providing technology capable of substantial infringing use.<sup>64</sup>

### C. Basic Books, Inc. and Princeton University Press—Photocopy Machines

The courts subsequently decided two cases regarding technological copyright infringement liability as a result of the photocopier, a technology capable of reproducing exact duplicates of any material placed in its copier bed: *Basic Books, Inc. v. Kinko's Graphics Corp.*<sup>65</sup> and *Princeton University Press v. Michigan Documents Services, Inc.*<sup>66</sup>

In *Basic Books, Inc.*, copyright owners filed a direct infringe-

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<sup>59</sup> *Id.* (acknowledging that before the Supreme Court decision, both parties conducted several hundred surveys of VCR owners in order to determine what the users’ “primary use of the machine” was and each party’s survey reached nearly the same result, which was that most VCR owners predominantly utilized the machine for the purpose of “time-shifting” rather than creating libraries of infringing copies).

<sup>60</sup> *Sony Corp.*, 464 U.S. at 454-55. See 17 U.S.C.A. § 107.

<sup>61</sup> *Sony Corp.*, 464 U.S. at 456.

<sup>62</sup> *Id.*

<sup>63</sup> *Id.*

<sup>64</sup> *Sony Corp.*, 465 U.S. 1112 (1984) (denying the petition for re-hearing); see also Peter S. Menell & David Nimmer, *Legal Realism In Action: Indirect Copyright Liability's Continuing Tort Framework and Sony's De Facto Demise*, 55 UCLA L. REV. 143, 149 (2007) (discussing *Sony Corp.*, as well as possible alternative tort theories to help decide further technological infringement cases).

<sup>65</sup> *Basic Books, Inc. v. Kinko's Graphics Corp.*, 758 F. Supp. 1522 (S.D.N.Y. 1991).

<sup>66</sup> *Princeton Univ. Press v. Mich. Documents Servs., Inc.*, 99 F.3d 1381 (6th Cir. 1996).

ment claim against Kinko's for compiling and selling several student course-packets made from photocopies of textbooks without paying a licensing fee to the textbook copyright owners.<sup>67</sup> These course-packets consisted of unauthorized materials duplicated by Kinko's employees utilizing Kinko's photocopy machines from the copyright owners' textbooks.<sup>68</sup> These copies were sold to students, eliminating the students' need to purchase the entire textbook.<sup>69</sup>

The district court focused on the commercial nature of the works reproduced by Kinko's in addition to its volitional conduct regarding the actual copying of the course-packets.<sup>70</sup> The court analyzed the volitional conduct of Kinko's and its employees of offering nation-wide discounts to the local professors to "provide[] incentives to professors for choosing their copy center over others."<sup>71</sup> Kinko's representatives also visited professors and distributed brochures discussing Kinko's photocopying services.<sup>72</sup> Kinko's employees actively solicited course information and textbook listings from these professors in order to obtain and photocopy the necessary materials to compile the course-packets for sale directly to the students.<sup>73</sup>

Kinko's argued that it was excused from direct infringement liability due to the fair use defense allowing the reproduction of materials for educational purposes.<sup>74</sup> The court rejected the fair use argument and found Kinko's liable for direct infringement.<sup>75</sup> The court emphasized that Kinko's profited from selling copies of the copyrighted material without paying the copyright owners for these reproductions.<sup>76</sup> The court also stressed that Kinko's copies were commercially harmful, as the unauthorized copies "compete[d] in the same market as the copyrighted works" and replaced the need for

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<sup>67</sup> *Basic Books, Inc.*, 758 F. Supp. at 1526.

<sup>68</sup> *Id.* (explaining that the copying varied from "14 to 110 pages" from each textbook and the student course-packets were compiled by Kinko's employees into "five numbered packets").

<sup>69</sup> *Id.* at 1534.

<sup>70</sup> *Id.* at 1529, 1532.

<sup>71</sup> *Id.* at 1532.

<sup>72</sup> *Basic Books, Inc.*, 758 F. Supp. at 1529.

<sup>73</sup> *Id.*

<sup>74</sup> *Id.* at 1531. *See also* 17 U.S.C.A. § 107(1).

<sup>75</sup> *Basic Books, Inc.*, 758 F. Supp. at 1547.

<sup>76</sup> *Id.* at 1532 (citing *Harper & Row Publishers, Inc. v. Nation Enters.*, 471 U.S. 539, 562 (1985)); *id.* at 1529 (explaining that in 1988, Kinko's revenue was \$42 million, and in 1989, Kinko's revenue was \$54 million).

students to purchase expensive copyrighted textbooks.<sup>77</sup>

In *Princeton University Press*, copyright owners filed a direct infringement claim against Michigan Document Services for the compiling and selling of student course-packets made from photocopied pages of textbooks without paying a royalty fee to the copyright owners.<sup>78</sup> The Sixth Circuit focused on the volitional conduct of the copy-center and its employees when holding Michigan Document Services liable as direct infringers of the textbook owners' copyrighted works.<sup>79</sup> The volitional conduct of the copy-center included contacting the university professors to obtain the necessary copyrighted materials for the packets.<sup>80</sup> The copy-center also instructed its employees to photocopy, bind, and "[a]dd[] a cover page [or] a table of contents," in order to sell the finished product to students without paying a licensing fee to the copyright owner.<sup>81</sup>

Similar to the copy-center in *Basic Books, Inc.*, Michigan Document Services claimed a fair use exemption for the educational purpose of reproducing the work for student course-packets.<sup>82</sup> Like the court in *Basic Books*, this court also rejected the fair use defense due to the commercial nature of the infringement.<sup>83</sup> The Sixth Circuit emphasized that any volitional conduct by an individual that causes a violation of a copyright owner's exclusive rights can result in direct infringement liability.<sup>84</sup>

### III. THE CARTOON NETWORK CASE ANALYSIS

#### A. Cablevision's Remote Digital Video Recorders System ("RS-DV-R")

Technology has evolved at a rapid pace, eventually leading to the replacement of most VCRs with new STS DV-Rs.<sup>85</sup> These STS DV-Rs are capable of recording a live television program and storing

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<sup>77</sup> *Id.* at 1532, 1534.

<sup>78</sup> *Princeton Univ. Press*, 99 F.3d at 1384.

<sup>79</sup> *Id.*

<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

<sup>82</sup> *Id.* at 1383; 17 U.S.C.A. § 107(1).

<sup>83</sup> *Princeton Univ. Press*, 99 F.3d at 1387.

<sup>84</sup> *Id.* at 1384, 1392.

<sup>85</sup> Mark McGuire, *Rise of DVR Likely to Pull Plug on VCR*, CHI. TRIB., Feb. 20, 2003.

a digital copy of this program on the hard-drive within the machine at the end-user's location without the creation of any videocassette or hard copy.<sup>86</sup> The next technological advance after the STS-DV-R was Cablevision's new RS-DV-R system.<sup>87</sup>

In March 2006, Cablevision announced the pending release of a new RS-DV-R system, which would allow any Cablevision subscribers who did not own an STS DV-R system to record live television programs (for an extra fee) without purchasing or renting the STS-DV-R recording equipment by simply downloading a software upgrade to their existing cable-box.<sup>88</sup> The program copy created by the RS-DV-R system would be stored on Cablevision's own servers for the subscriber to view at a later point or until the user erased the copy.<sup>89</sup> Cablevision, which already pays licenses to copyright owners for the VOD system, did not obtain an additional license for this new RS-DV-R on-demand viewing system.<sup>90</sup> This led the copyright owners of televised works to institute a suit against Cablevision to enjoin the distribution of the new RS-DV-R system without appropriate licensing.<sup>91</sup>

## B. District Court Decision

The *Twentieth Century Fox Film Corp. v. Cablevision Systems Corp.*<sup>92</sup> suit for direct copyright infringement was originally brought in federal district court by Fox against Cablevision.<sup>93</sup> Fox specifically did not include a claim for contributory infringement against Cablevision<sup>94</sup> because it was "unwilling to challenge the consumer's right to record television programs for later viewing" (time-shifting)<sup>95</sup> and Cablevision affirmatively waived its fair use de-

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<sup>86</sup> *Fox*, 478 F. Supp. 2d at 611-12.

<sup>87</sup> *Id.* at 612.

<sup>88</sup> *Id.* at 609.

<sup>89</sup> *Id.* at 612.

<sup>90</sup> *Id.* at 609-11.

<sup>91</sup> *Fox*, 478 F. Supp. 2d at 609-10.

<sup>92</sup> 478 F. Supp. 2d 607.

<sup>93</sup> *Id.* at 616.

<sup>94</sup> *Id.* Based on the Supreme Court's decision in *Sony Corp.*, a contributory infringement claim by Fox against Cablevision would have probably failed because the RS-DV-R users' main reason for recording the copyrighted programs was for "time-shifting" purposes, which the Court has explicitly found to be fair use and not an infringement. *Id.* at 618.

<sup>95</sup> Brief for Defendants-Counterclaimants-Appellants, *The Cartoon Network LP, L.L.L.P.*

fense.<sup>96</sup>

Fox claimed that Cablevision, through its RS-DV-R system, directly violated two of Fox's exclusive rights in its copyrighted materials.<sup>97</sup> Fox asserted that Cablevision engaged in the unauthorized reproduction of Fox's copyrighted work through its RS-DV-R system by creating copies of Fox's protected work<sup>98</sup> and that Cablevision violated Fox's exclusive right to perform its work publicly due to the RS-DV-R system's subsequent playback of the copyrighted work stored on Cablevision's remote servers to the RS-DV-R user.<sup>99</sup>

Fox claimed that Cablevision violated its exclusive right to reproduce its copyrighted works in two ways.<sup>100</sup> Fox claimed that Cablevision had violated this right with the complete copy of Fox's work stored indefinitely on Cablevision's remote server and with the buffer portions of Fox's copyrighted programming stored in the RS-DV-R system's RAM memory during the RS-DV-R recording process.<sup>101</sup> The first requirement for a copyright infringement claim due to Cablevision's unauthorized reproduction of Fox's programming was satisfied as it was undisputed that Fox "own[ed] valid copyrights for the television programming at issue."<sup>102</sup> The issue remaining for the district court to address was whether Cablevision was copying or otherwise misappropriating Fox's work, thereby violating one of Fox's exclusive rights in the copyrighted work.<sup>103</sup>

Cablevision claimed that it was not liable for direct infringement because it was "passive in the . . . recording process."<sup>104</sup> It argued the RS-DV-R user, not Cablevision, was doing the copying when the user initiated the recording process with an RS-DV-R remote.<sup>105</sup> Cablevision also contended that it could not be held directly liable for infringement "for merely providing [its] customers with the

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v. CSC Holdings, Inc, 536 F.3d 121 (2d Cir. 2007) (Nos. 07-1480-cv(L), 07-1511-cv(CON)), 2007 WL 6101594 [hereinafter *Cablevision's Second Circuit Brief*].

<sup>96</sup> Fox, 478 F. Supp. 2d at 618. See also 17 U.S.C.A. § 107.

<sup>97</sup> Fox, 478 F. Supp. 2d at 617. See also 17 U.S.C.A. § 106.

<sup>98</sup> Fox, 478 F. Supp. 2d at 617. See also 17 U.S.C.A. § 106(1).

<sup>99</sup> Fox, 478 F. Supp. 2d at 617. See also 17 U.S.C.A. § 106(4).

<sup>100</sup> Fox, 478 F. Supp. 2d at 617. See also 17 U.S.C.A. § 106(1).

<sup>101</sup> Fox, 478 F. Supp. 2d at 617.

<sup>102</sup> *Id.*

<sup>103</sup> *Id.* See also 17 U.S.C.A. § 106.

<sup>104</sup> Fox, 478 F. Supp. 2d at 617.

<sup>105</sup> *Id.*

machinery to make copies.”<sup>106</sup> The trial court rejected Cablevision’s argument and ruled that Cablevision had made unauthorized copies of Fox’s copyrighted works<sup>107</sup> because the RS-DV-R system “require[d] continuing and active involvement of Cablevision” and its employees.<sup>108</sup>

In holding Cablevision liable for making the recordings using the RS-DV-R system, the court distinguished the RS-DV-R system manufactured by Cablevision from the VCR in *Sony Corp.*<sup>109</sup> The district court in *Fox* highlighted the “multitude of devices and processes” necessary to create a recording within Cablevision’s RS-DV-R system.<sup>110</sup> To use the RS-DV-R, a consumer who clicks the record button on the RS-DV-R remote sends a request to Cablevision’s remote server to start the recording process.<sup>111</sup> However, with a VCR, a “simple push of a button” produces a recording without any interaction with the supplier of the copying technology.<sup>112</sup> Additionally, a monthly subscription is required for this RS-DV-R service to function, while the stand-alone transportable VCR technology in *Sony Corp.* was purchased and owned outright by the consumer, without any outside interactions or additional periodic subscriptions to commence a recording within the system.<sup>113</sup> The court also found the RS-DV-R system differed from the VCR in *Sony Corp.* because of the RS-DV-R system’s “complex computer network.”<sup>114</sup> This system required “constant monitoring by Cablevision personnel” and constant interaction between the user’s set-top box and Cablevision’s remote servers in the playing or creating of a recording.<sup>115</sup> In *Sony Corp.*, “the only contact between [the parties] occurred at the moment of the sale.”<sup>116</sup> Furthermore, in *Sony Corp.*, Sony merely manufactured and sold the equipment to the end-user, while in Cablevision’s RS-DV-R system, Cablevision “suppl[ied] a set-top box to the cus-

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<sup>106</sup> *Id.* at 618.

<sup>107</sup> *Id.* at 621.

<sup>108</sup> *Id.* at 618.

<sup>109</sup> *Fox*, 478 F. Supp. 2d at 618.

<sup>110</sup> *Id.*

<sup>111</sup> *Id.*

<sup>112</sup> *Id.*

<sup>113</sup> *Id.*

<sup>114</sup> *Fox*, 478 F. Supp. 2d. at 619.

<sup>115</sup> *Id.*

<sup>116</sup> *Id.* at 618-19 (quoting *Sony Corp.*, 464 U.S. at 438) (internal quotation marks omitted).

tomers[,] . . . maintain[ed and serviced] the rest of the equipment that makes the RS-DV-R's recording process possible," "decide[d] what content to make available" to the users, and "determine[d] how much memory to allot to each customer," including the possibility of purchasing additional storage capacity.<sup>117</sup>

Cablevision argued unsuccessfully that because the RS-DV-R was similar to the currently unlicensed STS-DV-Rs, the RS-DV-R was also exempted from liability.<sup>118</sup> Because no copyright holder had sued Cablevision for providing its STS-DV-R service, it contended, the same should be true for the RS-DV-R.<sup>119</sup> The court rejected this argument because different processes were necessary to create the recordings within each of these systems.<sup>120</sup> With Cablevision's new RS-DV-R system, a recording can only be enabled by a complex interaction and data transmission between Cablevision's remote server and the RS-DV-R user's cable-box.<sup>121</sup> In the STS-DV-R system, any transmitted work could be directly recorded onto the STS-DV-R's internal hard-drive without any required external interactions with a service provider.<sup>122</sup>

The court compared the new RS-DV-R's "architecture and delivery method" to the Video-on-Demand ("VOD") service, which Cablevision already provided to its subscribers "pursuant to licenses negotiated with" these same copyright owners.<sup>123</sup> Here, the court ruled that since the new RS-DV-R system was "more akin to VOD than to a VCR," additional licensing was needed because in both systems, VOD and RS-DV-R, "Cablevision decides what content to make available to [the] customers" for an additional on-demand viewing window and both services are based on the same technological configurations and necessities.<sup>124</sup>

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<sup>117</sup> *Fox*, 478 F. Supp. 2d at 619.

<sup>118</sup> *Id.*

<sup>119</sup> *Id.*

<sup>120</sup> *Id.*

<sup>121</sup> *Fox*, 478 F. Supp. 2d at 619.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.* (explaining that VOD is a "pay-per-view" automated system that allows an individual to select and purchase a copyrighted work from a pre-selected programming list and watch this chosen program at that instant for one-time viewing).

<sup>124</sup> *Id.* (describing that an "RS-DVR is based on a modified VOD platform" and both the VOD service and the RS-DV-R system utilize a "session resource manager" to create temporary encrypted pathways that transmit on-demand programming data from Cablevision's servers to the user's cable-box).



The court then continued its analysis regarding Cablevision's liability as a direct infringer by comparing its volitional conduct and active role in the recording process to the role of the copy-center employees in *Basic Books, Inc.* and *Princeton University Press*.<sup>125</sup> The court notes that the volitional conduct by Cablevision, even at a paying customer's request, is analogous to the conduct by the copy centers that were held liable for photocopying and selling course-packets at a customer's request.<sup>126</sup> Finally, the court held Cablevision directly liable because it "provide[d] the content being copied" (television programs) and the duplication machinery (RS-DV-R server) for a profit.<sup>127</sup> This was similar to the infringing copy-centers that had provided both the copyrighted content (textbooks) and the machinery (photocopier) used for the unauthorized reproduction and commercial distribution of student course-packets.<sup>128</sup>

The court also rejected Cablevision's contention that it was exempt from liability because of its similarity to an Internet Service Provider ("ISP").<sup>129</sup> In *Religious Technology Center v. Netcom On-line Communications Services, Inc.*,<sup>130</sup> the ISP was not held "liable for direct infringement" because the court determined it would be "virtually impossible for an ISP" such as Netcom to filter out all the infringing data on its server.<sup>131</sup> The district court in *Fox* distinguished Cablevision from the ISP in *Netcom* and held that Cablevision was not exempt from liability because "Cablevision ha[d] unfettered discretion in selecting" and monitoring the RS-DV-R data on its remote servers.<sup>132</sup> Cablevision differed from the ISP in *Netcom* because the latter could not practically monitor all the infringing data on its remote servers.<sup>133</sup>

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<sup>125</sup> *Basic Books, Inc.*, 758 F. Supp. 1522; *Princeton Univ. Press*, 99 F.3d 1381.

<sup>126</sup> *Fox*, 478 F. Supp. 2d at 620.

<sup>127</sup> *Id.* See also *RCA Records, A Div. of RCA Corp. v. All-Fast Sys., Inc.*, 594 F. Supp. 335, 337 (S.D.N.Y. 1984) (holding a store liable for direct infringement when its employees operated a store-owned tape cassette copying machine at a customer's request and duplicated and sold unauthorized copies of copyrighted sound recordings on a blank tape cassette to the customer).

<sup>128</sup> *Fox*, 478 F. Supp. 2d at 620.

<sup>129</sup> *Id.*

<sup>130</sup> 907 F. Supp. 1361 (N.D. Cal. 1995).

<sup>131</sup> *Fox*, 478 F. Supp. 2d at 620 (citing *Netcom*, 907 F. Supp. at 1372-73).

<sup>132</sup> *Id.*

<sup>133</sup> *Id.*

Fox further claimed that the temporary “buffer copies”<sup>134</sup> which Cablevision’s RS-DV-R system stored in its RAM memory during the recording process constituted “copies”<sup>135</sup> that violated Fox’s exclusive right to reproduce copies of its works.<sup>136</sup> Fox argued that the buffer copies constituted an impermissible infringing copy because portions of its copyrighted programs were stored in the server’s buffer memory and could be “used to make permanent copies of entire programs.”<sup>137</sup> Cablevision argued that the buffer copies were not copies because they were not “fixed,”<sup>138</sup> as required by the Copyright Act.<sup>139</sup> Alternatively, Cablevision argued that even if the data were considered a copy, the use was only *de minimis*.<sup>140</sup>

The court disposed of Cablevision’s *de minimis* use claim by stating that these “buffer copies, in the aggregate, comprise[d] the whole” of Fox’s copyrighted work; thus, “[t]he aggregate effect of the buffering that takes place in the . . . RS-DV-R system can hardly be called *de minimis*.”<sup>141</sup> Additionally, the court rejected Cablevision’s claim that the buffer copies were not copies by relying on prior court decisions<sup>142</sup> and on Senate Committee Reports regarding the implementation of the Digital Millennium Copyright Act (“DMCA”).<sup>143</sup> Court decisions and the DMCA legislative history

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<sup>134</sup> *Id.* at 621 (stating that a “buffer copy” is the portion of copyrighted programming data “residing” in the RS-DV-R system’s RAM memory during the recording process which is then “used to make permanent copies of [the] entire program” for storage on Cablevision’s remote servers).

<sup>135</sup> 17 U.S.C.A. § 101. This statute defines a “copy” as any “material object” in which “a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. *Id.* Material objects include expressive forms of media such as paper, phonorecord, photograph, or canvas. *Id.*

<sup>136</sup> *Fox*, 478 F. Supp. 2d at 621-22. *See also* 17 U.S.C.A. § 106(1).

<sup>137</sup> *Fox*, 478 F. Supp. 2d at 621.

<sup>138</sup> 17 U.S.C.A. § 101 (defining a work as being “fixed” when it is “in a tangible medium of expression” that “is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration”).

<sup>139</sup> *Fox*, 478 F. Supp. 2d at 621.

<sup>140</sup> *Id.*

<sup>141</sup> *Id.*

<sup>142</sup> *See* *Stenograph L.L.C. v. Bossard Assocs., Inc.*, 144 F.3d 96, 100 (D.C. Cir. 1998); *Triad Sys. Corp. v. Se. Express Co.*, 64 F.3d 1330, 1335 (9th Cir. 1995); *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir. 1993).

<sup>143</sup> *See* U.S. COPYRIGHT OFFICE, A REPORT OF THE REGISTER OF COPYRIGHTS PURSUANT TO § 104 OF THE DIGITAL MILLENNIUM COPYRIGHT ACT 50-51 (2001), *available at* [http://www.copyright.gov/reports/studies/dmca/dmca\\_study.html](http://www.copyright.gov/reports/studies/dmca/dmca_study.html).

support the notion that temporary copies, such as those stored in the buffer RAM memory in Cablevision's server, constitute a copy as defined by the Copyright Act, and that these RS-DV-R buffer copies were "within the scope of [works protected under] the copyright owner's [exclusive] right."<sup>144</sup>

The court also ruled in favor of Fox on their second claim by finding Cablevision had violated Fox's exclusive right to perform<sup>145</sup> a work publicly by transmitting copies of Fox's copyrighted programs stored on Cablevision's servers to the RS-DV-R user without permission.<sup>146</sup>

The district court rejected Cablevision's argument that the subscriber, rather than Cablevision, performed the recording when the user pressed the record and play buttons.<sup>147</sup> The trial court focused on Cablevision's requisite active participation in the playback process that caused the RS-DV-R system to reproduce the copyrighted works in the private RS-DV-R user's home.<sup>148</sup> The court distinguished Cablevision's active participation that triggered the RS-DV-R playback sequence, including the maintenance of the remote computer servers that retrieved and streamed the stored copyrighted programming from Cablevision's remote servers to the user's cable-box, from the active participation of the employees in the video store in *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*<sup>149</sup> The video store in *Redd Horne, Inc.* was found to have performed work when an employee inserted a copyrighted videocassette into a VCR player, pressed play, and the playback sequence displayed a copyrighted work to a limited number of paying customers in private viewing booths.<sup>150</sup>

Furthermore, Cablevision argued that the performance was not "public,"<sup>151</sup> but rather, a private one because each RS-DV-R

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<sup>144</sup> Fox, 478 F. Supp. 2d at 621. See also 17 U.S.C.A. § 106(1).

<sup>145</sup> 17 U.S.C.A. § 101 (defining "perform" as "to recite, render, play, dance, or act [a copyrighted work], either directly or by means of any device or process").

<sup>146</sup> Fox, 478 F. Supp. 2d at 624. See also 17 U.S.C.A. § 106(4).

<sup>147</sup> Fox, 478 F. Supp. 2d at 622.

<sup>148</sup> *Id.*

<sup>149</sup> *Id.* (citing *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154, 157 (3d Cir. 1984)).

<sup>150</sup> *Redd Horne, Inc.*, 749 F.2d at 157, 162.

<sup>151</sup> See 17 U.S.C.A. § 101.

To perform or display [the copyrighted] work . . . at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its

transmission emanated from a single private copy of the copyrighted work stored on Cablevision's server which was associated with a single RS-DV-R user's box and was "intended for [the] customer's exclusive viewing."<sup>152</sup> However, the trial court found Cablevision liable for engaging in the unauthorized public performance of Fox's copyrighted works.<sup>153</sup> The court emphasized the commercial relationship that existed between Cablevision and the potential RS-DV-R customers, stating that any commercial "transmission is one made 'to the public,' "<sup>154</sup> and such RS-DV-R on-demand subsequent public transmissions would constitute a violation of Fox's exclusive rights under the Copyright Act even if the transmission was to a single viewer watching the stream in his or her private home.<sup>155</sup>

The court compared the commercial relationship existing between Cablevision and the RS-DV-R customer to the commercial relationship presented in *On Command Video Corp. v. Columbia Pictures Industries*.<sup>156</sup> In *On Command Video Corp.*, a hotel that maintained and ran an automated on-demand movie-rental system was found to have publicly performed a work, even though the individuals watched the movies in their private hotel rooms.<sup>157</sup> The court ruled that these individuals in their own hotel rooms were "nonetheless members of 'the public' " and emphasized the commercial nature

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social acquaintances [are] gathered[,] or to transmit or otherwise communicate a performance or display of the work . . . to the public, by means of any device or process, whether the members of the public capable of receiving the performance or display receive it in the same place or in separate places and at the same time or at different times.

*Id.*

<sup>152</sup> *Fox*, 478 F. Supp. 2d at 622.

<sup>153</sup> *Id.* at 624.

<sup>154</sup> *Id.* at 623.

<sup>155</sup> *Id.* at 624. *See also* 17 U.S.C.A. § 106(4).

<sup>156</sup> *Fox*, 478 F. Supp. 2d at 623 (citing *On Command Video Corp. v. Columbia Pictures Indus.*, 777 F. Supp. 787, 790 (N.D. Cal. 1991)).

<sup>157</sup> *Compare On Command Video Corp.*, 777 F. Supp. at 790 (finding that although the hotel guests were not watching the movies in a public place, they were still members of the public), *with Columbia Pictures Indus., Inc. v. Prof'l Real Estate Investors, Inc.*, 866 F.2d 278, 282 (9th Cir. 1989) (finding that the defendant which owned a hotel did not perform a work "publicly" when it rented videodiscs to hotel guests who used the rented discs in hotel-provided video viewing equipment). *See id.*, 866 F.2d at 280-81 (rejecting plaintiff's argument that the hotel room was "open to the public" because a room could be rented by members of the public and ruling that once the room was rented it no longer was "open to the public"); *id.* at 281 (stating that the hotel guests "do not view the [copyrighted] videodiscs in hotel . . . rooms used for large gatherings [, rather t]he movies are viewed exclusively in [private] guest rooms").

of the existing relationship between the hotel and the private viewer.<sup>158</sup> The district court ruled that because a commercial relationship also existed between the RS-DV-R user, who pays a subscription fee to Cablevision for the RS-DV-R recording service, and Cablevision, the RS-DV-R transmissions constituted an unauthorized public performance of Fox's copyrighted work.<sup>159</sup> Additionally, the court stated that Cablevision's RS-DV-R service was similar to the "on-demand" systems in *Redd Horne, Inc.* and *On Command Video Corp.* because in each case these parties had provided commercial on-demand video playback services.<sup>160</sup> Cablevision, like the parties in *Redd Horne, Inc.* and *On Command Video Corp.*, decided what content to make available and allowed customers to select the programming they wished to view.<sup>161</sup> Additionally, Cablevision supplied the same content for a fee "from one location [master server or VCR machine] to another location [private hotel room or viewing booth] for . . . exclusive viewing," and the same content is provided to different customers at different times.<sup>162</sup>

Ultimately, the district court enjoined Cablevision from releasing the RS-DV-R system without appropriate licensing because the system "infring[ed on Fox's] exclusive rights under the Copyright Act."<sup>163</sup> Cablevision appealed the district court's rulings, setting the stage for the Second Circuit's decision in *Cartoon Network, L.P., L.L.P. v. CSC Holdings, Inc.*<sup>164</sup>

### C. Second Circuit Decision

The Second Circuit entertained Cablevision's challenge to the lower court's decision finding Cablevision directly liable for infringing Fox's copyrighted works through its RS-DV-R system.<sup>165</sup> The Second Circuit reversed the district court's rulings and absolved Cablevision of direct copyright infringement liability for the marketing

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<sup>158</sup> *On Command Video Corp.*, 777 F. Supp. at 790 (citing *Redd Horne, Inc.*, 749 F.2d at 159).

<sup>159</sup> *Fox*, 478 F. Supp. 2d at 623.

<sup>160</sup> *Id.* at 624.

<sup>161</sup> *Id.* at 623-24.

<sup>162</sup> *Id.* at 624.

<sup>163</sup> *Id.*

<sup>164</sup> 536 F.3d 121.

<sup>165</sup> *Fox*, 478 F. Supp. 2d at 624.

and commercial distribution of the RS-DV-R technology.<sup>166</sup>

The Second Circuit initially addressed Cablevision's direct liability for the unauthorized creation of a copy of Fox's copyrighted works based on the buffer data stored on Cablevision's server.<sup>167</sup> The data were transmitted "one small piece at a time" to Cablevision's remote servers creating a complete copy of the originally transmitted work.<sup>168</sup>

The circuit court reversed the district court's interpretation of the Copyright Act's definition of what constitutes fixation of a copy.<sup>169</sup> The circuit court articulated the two requirements necessary for a work to constitute a fixed copy.<sup>170</sup> The first criterion is an "embodiment" requirement, which mandates that the work be embodied in a tangible medium of expression that "can be perceived [or] reproduced."<sup>171</sup> The second criterion is the "duration" requirement, which requires that the work "remain . . . embodied 'for a period of more than transitory duration.' "<sup>172</sup> If "both requirements are [not] met, the work is not 'fixed' " and does not constitute a fixed copy of an original copyrighted work.<sup>173</sup>

The Second Circuit overturned the district court's determination that the buffer copy constituted a fixed copy because the lower court only focused on the embodiment requirement without analyzing the minimal duration requirement.<sup>174</sup> The court analyzed whether the buffer copy created by the RS-DV-R system satisfied both requirements for a copy of a work to be deemed fixed.<sup>175</sup> It was undisputed that the embodiment requirement was satisfied as the buffer data were embodied in the RS-DV-R system's RAM memory and later "reformatted and transmitted to other components of the RS-DVR system" to be reproduced into a full version of the original work that

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<sup>166</sup> *The Cartoon Network*, 536 F.3d at 140.

<sup>167</sup> *Id.* at 127. *See also* 17 U.S.C.A. § 106(1).

<sup>168</sup> *The Cartoon Network*, 536 F.3d at 127.

<sup>169</sup> *Id.* *See also* 17 U.S.C.A. § 101.

<sup>170</sup> *The Cartoon Network*, 536 F.3d at 127. *See also* 17 U.S.C.A. § 101.

<sup>171</sup> *The Cartoon Network*, 536 F.3d at 127. *See also* 2 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 8.02[B][2] (2009).

<sup>172</sup> *Id.*

<sup>173</sup> *The Cartoon Network*, 536 F.3d at 127.

<sup>174</sup> *Id.*

<sup>175</sup> *Id.*

is then stored on Cablevision's servers.<sup>176</sup> However, the court of appeals ruled that the duration requirement for a work to be fixed was not satisfied because the copy of the work was only embodied in the RS-DV-R's buffer RAM memory for a transitory period<sup>177</sup> of less than "1.2 seconds,"<sup>178</sup> and then the buffer data were "rapidly and automatically overwritten" when the automated system processed the information.<sup>179</sup>

The Second Circuit compared this length of time to the duration of time that the RAM lasted in *MAI Systems Corp. v. Peak Computer, Inc.*<sup>180</sup> In *MAI Systems Corp.*, the duration requirement for a copy to be fixed was satisfied because the copyrighted data had "remained embodied in the computer's RAM memory until the user turned the computer off."<sup>181</sup> The court considered this as a period of time that was more than transitory in duration.<sup>182</sup> However, the Second Circuit interpreted the *MAI* court's ruling not to mean that "loading a program into a form of RAM *always* result[s] in copying," but rather that "loading a program into a computer's RAM *can* result in copying," and thus the RAM stored in the RS-DV-R memory clearly did not result in a fixed copy due to the data's transitory existence.<sup>183</sup>

The Second Circuit then addressed Cablevision's direct copyright infringement liability for the unauthorized complete copy of Fox's copyrighted work stored on Cablevision's remote servers.<sup>184</sup> The circuit court's analysis turned on who actually made the copy, Cablevision or the RS-DV-R user.<sup>185</sup> If the copy was made by Cablevision, then Fox's "theory of direct infringement succeeds," but if the copy was made by the RS-DV-R user, then Fox's direct liability

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<sup>176</sup> *Id.* at 129. See also 17 U.S.C.A. § 101.

<sup>177</sup> *The Cartoon Network*, 536 F.3d at 130.

<sup>178</sup> *Id.* at 129.

<sup>179</sup> *Id.* at 130.

<sup>180</sup> *Id.* at 127-28 (citing *MAI Systems Corp.*, 991 F.2d at 513, 518).

<sup>181</sup> *Id.* at 128-30 (citing *MAI Systems Corp.*, 991 F.2d at 518).

<sup>182</sup> *MAI Systems Corp.*, 999 F.2d at 518; see also *Advanced Computer Servs. of Mich., Inc., v. MAI Sys. Corp.*, 845 F. Supp. 356, 363 (E.D. Va. 1994) (finding that a copyrighted program that was loaded into a computer's RAM and stored there for a "minute[] or longer" satisfied both requirements for a copy of a work to be " 'fixed' ").

<sup>183</sup> *The Cartoon Network*, 536 F.3d at 128 (citing *MAI Systems Corp.*, 999 F.2d at 518); *id.* at 128-30.

<sup>184</sup> *Id.* at 130.

<sup>185</sup> *Id.*

fails and “Cablevision would . . . face, at most, secondary liability,” a theory that Fox had already expressly disavowed.<sup>186</sup>

Citing *CoStar Group, Inc. v. LoopNet, Inc.*,<sup>187</sup> the Second Circuit explained that for a direct copyright infringement claim to succeed, “something more . . . than mere ownership of a machine used by others to make illegal copies” must exist.<sup>188</sup> For direct copyright infringement liability for distributing copying technology, a sufficiently close relationship between the illegal copying and the actual infringing conduct must exist to “conclude that the machine owner himself trespassed” on the copyright owner’s exclusive rights.<sup>189</sup>

For direct infringement liability, some volitional or causal conduct<sup>190</sup> on the part of the machine owner must “cause[] the copy to be made.”<sup>191</sup> The Second Circuit identified two instances of volitional conduct by Cablevision: (1) Cablevision’s conduct “in designing, housing, and maintaining a system that exists only to produce a copy;” and (2) the RS-DV-R user’s ordering the RS-DV-R system to record a specific protected work.<sup>192</sup> The court then analyzed each instance of volitional conduct and in both instances found Cablevision not to be liable as a direct infringer.<sup>193</sup>

Regarding Cablevision’s volitional conduct in maintaining

<sup>186</sup> *Id.*

<sup>187</sup> 373 F.3d 544 (4th Cir. 2004). *CoStar*, owner of copyrighted real estate photographs, brought a direct infringement suit against *LoopNet*, an ISP that ran an online real-estate listing where *CoStar*’s customers had posted its copyrighted photographs after “each customer agree[d] not to post” copyrighted materials. *Id.* at 546-47. Before an image was posted on the *LoopNet* site, “[a] *LoopNet* employee . . . review[ed] the photograph (1) to determine whether the photograph . . . depict[ed] . . . real estate, and (2) to identify any obvious evidence . . . that the photograph [might] have been copyrighted by another.” *Id.* at 547. The Fourth Circuit found in favor of *LoopNet*, stating that “ISPs, when passively storing material at the direction of users in order to make that material available to other users upon their request, do not ‘copy’ the material in direct violation of . . . the Copyright Act.” *Id.* at 555. Although the court noted that an ISP may be found *indirectly* liable if it violated the Act contributorily or vicariously, “*LoopNet*’s perfunctory gatekeeping process . . . d[id] not amount to direct infringement.” *Id.* at 555-56.

<sup>188</sup> *The Cartoon Network*, 536 F.3d at 130 (quoting *CoStar Group, Inc.*, 373 F.3d at 550) (internal quotation marks omitted).

<sup>189</sup> *Id.* (quoting *CoStar Group, Inc.*, 373 F.3d at 550) (internal quotation marks omitted).

<sup>190</sup> *CoStar Group, Inc.*, 373 F.3d at 550-51 (citing *Netcom*, 907 F. Supp. at 1370 (stating that “there should still be some element of volition or causation . . . where a defendant’s system is . . . used to create a copy by a third party”)).

<sup>191</sup> *The Cartoon Network*, 536 F.3d at 131 (citing *Netcom*, 907 F. Supp. 1361).

<sup>192</sup> *Id.*

<sup>193</sup> *Id.* at 132-33.



and designing the RS-DV-R system, the Second Circuit compared Cablevision to a copy-center store proprietor who charges an individual to use “a system that automatically produces copies on command” in response to a customer’s request without the employees making the actual copy.<sup>194</sup> The court reversed the trial court’s decision finding Cablevision liable for making the copies in the RS-DV-R system.<sup>195</sup> The court reasoned that Cablevision, analogous to a copy-center proprietor, does not “ ‘make[.]’ any copies,” but, instead the paying customer actually operates the machine and orders the creation of the copy.<sup>196</sup>

The Second Circuit focused on the volitional conduct of the party “who actually ‘makes’ [the] copy” in the RS-DV-R system.<sup>197</sup> The court’s evaluation of Cablevision’s role in the copying process was similar to that of the copy-centers in *Basic Books, Inc.* and *Princeton University Press*, that were held liable for direct copyright infringement for the unauthorized duplication and commercial distribution of student course-packets.<sup>198</sup> The court focused on the lack of volitional conduct on the part of Cablevision and its employees in causing a copy of the original work to be created with the RS-DV-R system. It highlighted the difference between “making a request to a human employee, who then volitionally operates the copying system to make the copy,” like the copy-centers’ employees in *Basic Books, Inc.* and *Princeton Publishing Press*, with that of Cablevision’s RS-DV-R system, which automatically responds to any command issued by the RS-DV-R user.<sup>199</sup> Thus, the RS-DV-R’s copy of the copyrighted work was distinguished from the copy-centers’ unauthorized course-packets because the copy-centers’ employees physically “operated [the] copying device and sold the product they made using that device.”<sup>200</sup> In the RS-DV-R system, no action on the part of Cablevision or its employees caused an unauthorized copy to be created.<sup>201</sup>

The Second Circuit also ruled that the RS-DV-R user and a

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<sup>194</sup> *Id.* at 132.

<sup>195</sup> *Id.* at 133.

<sup>196</sup> *The Cartoon Network*, 536 F.3d at 132.

<sup>197</sup> *Id.* at 131.

<sup>198</sup> *Basic Books, Inc.*, 758 F. Supp. at 1542; *Princeton Univ. Press*, 99 F.3d 1381.

<sup>199</sup> *The Cartoon Network*, 536 F.3d at 131-32 (citing *Princeton Univ. Press*, 99 F.3d at 1383).

<sup>200</sup> *Id.* at 132 (citing *Princeton Univ. Press*, 99 F.3d at 1383).

<sup>201</sup> *Id.*

VCR user were not “sufficiently distinguishable . . . [as] to impose [direct] liability” on the manufacturer and owner of the machine, because the copies of the copyrighted works were “made automatically upon [the] customer’s command” without any volitional conduct on Cablevision’s behalf.<sup>202</sup> The court disagreed with the district court’s interpretation of *Sony Corp.*,<sup>203</sup> and ruled that the RS-DV-R user, like a VCR user in *Sony Corp.*, “supplies the necessary element of volition” by using the RS-DV-R system’s remote control to select a specific copyrighted program and by pressing the record button to create a copy of this program.<sup>204</sup> The court absolved Cablevision of direct copyright infringement liability for the unauthorized reproduction of Fox’s copyrighted works because the actual RS-DV-R user, not Cablevision or its employees, made the copy with the RS-DV-R system.<sup>205</sup>

The Second Circuit then addressed the lower court’s ruling that imposed direct copyright infringement liability on Cablevision for the unauthorized public performance of Fox’s copyrighted work.<sup>206</sup> The dispositive question was whether the transmission of the performance was public.<sup>207</sup> If the RS-DV-R playback was considered a public performance, Cablevision would be liable for infringement.<sup>208</sup> However, Cablevision would not be held liable if the performance was determined to be private.<sup>209</sup>

The Second Circuit stated that the Copyright Act directs a court to “examine who precisely is ‘capable of receiving’ a particular transmission of a performance,” and rejected the lower court’s determination that the RS-DV-R transmission was public.<sup>210</sup> The lower court focused on who potentially was “capable of receiving” the original transmission instead of “the potential audience of [the particular subsequent RS-DV-R] transmission.”<sup>211</sup> Consequently, the court of

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<sup>202</sup> *Id.* at 131.

<sup>203</sup> 464 U.S. 417; *The Cartoon Network*, 536 F.3d at 132-33.

<sup>204</sup> *The Cartoon Network*, 536 F.3d at 131; *See also id.* at 132-33 (citing *Sony Corp.*, 464 U.S. 417).

<sup>205</sup> *Id.* at 133.

<sup>206</sup> *Id.* at 134.

<sup>207</sup> *Id.* (quoting 17 U.S.C.A. § 106(4)).

<sup>208</sup> *The Cartoon Network*, 536 F.3d at 134 (citing 17 U.S.C.A. § 106(4)).

<sup>209</sup> *Id.* at 134.

<sup>210</sup> *Id.* at 135.

<sup>211</sup> *Id.* at 135-36.

appeals disregarded the lower court's interpretation because it expanded liability for "any transmission of . . . copyrighted work" since the "*potential* audience for every copyrighted . . . work is the general public."<sup>212</sup> The district court's interpretation also denied "any possibility of a purely private transmission," which was inconsistent with the current statutory language.<sup>213</sup>

The circuit court, relying on its decision in *National Football League v. PrimeTime 24 Joint Venture*,<sup>214</sup> reiterated that any public performance includes each step in the chain that causes any copyrighted work to make its way to the public.<sup>215</sup> Therefore, the court stated that when determining whether a link in a chain constitutes a public transmission, the court must look downstream at every link in the transmission chain and decide who was "capable of receiving" the subsequent transmission,<sup>216</sup> rather than looking "upstream or laterally" at who the potential recipients of the initial transmissions were.<sup>217</sup>

The Second Circuit stated that Cablevision's RS-DV-R transmission was distinguishable from the unlicensed satellite transmission of copyrighted NFL games to Canadian subscribers because the final link of the *NFL* transmission was "undisputedly a public performance," while the audience for the subsequent RS-DV-R transmission was only the individual DV-R subscriber using a self-made copy.<sup>218</sup> Therefore, the court held that the RS-DV-R system's playback of the recorded works stored on Cablevision's remote server to the individual RS-DV-R subscriber was a private, not public, performance because the only individual capable of receiving the particular RS-DV-R transmission was the one "subscriber whose self-made copy is used to create that [subsequent] transmission."<sup>219</sup>

The court focused on Professor Nimmer's definition of what

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<sup>212</sup> *Id.*

<sup>213</sup> *The Cartoon Network*, 536 F.3d at 135-36.

<sup>214</sup> 211 F.3d 10 (2d Cir. 2000). PrimeTime was found liable for the unauthorized public performance of NFL games after "uplinking" copyrighted NFL games to satellites where they could be publicly transmitted, or "downlinked" to unlicensed Canadian subscribers. *Id.* at 13.

<sup>215</sup> *The Cartoon Network*, 536 F.3d at 136-37 (citing *NFL*, 211 F.3d at 13). See also *NFL*, 211 F.3d at 13 (quoting *David v. Showtime/The Movie Channel, Inc.*, 697 F. Supp. 752, 759 (S.D.N.Y. 1988)).

<sup>216</sup> *The Cartoon Network*, 536 F.3d at 135.

<sup>217</sup> *Id.* at 137.

<sup>218</sup> *Id.*

<sup>219</sup> *Id.*

constituted a public performance.<sup>220</sup> A public performance, according to Professor Nimmer, can exist “if the same copy . . . of a given work is repeatedly played . . . by different members of the public, [even] at different times.”<sup>221</sup> The court then distinguished the unique copy of the work created by the RS-DV-R system from the single copy that was re-used by the infringing video store in *Redd Horne, Inc.* and the infringing hotel movie rental service in *On-Command Video Corp.*<sup>222</sup> The court found that “use of a unique copy” of a work, such as that created by the RS-DV-R, “may limit the potential audience of a transmission.”<sup>223</sup> Thus, the RS-DV-R transmission would not be considered public because the latter transmission was made to a single user using a unique copy, which could only be played on the specific cable-box that created the recording.<sup>224</sup>

Additionally, the court distinguished the Cablevision’s RS-DV-R system from the infringing video store owner in *Redd Horne, Inc.* and the infringing hotel movie rental service in *On-Command Video Corp.* by noting that both the hotel and video store had used a single copy of the work so that every hotel guest or video store patron “was capable of receiving a transmission” of the same, single copy by paying an appropriate rental fee.<sup>225</sup> However, in the RS-DV-R system, the only individual capable of receiving the RS-DV-R playback transmission was the individual who created that unique copy.<sup>226</sup>

The Second Circuit also rejected the district court’s ruling based on *On Command Video Corp.*, stating that “any commercial transmission is a transmission ‘to the public.’ ”<sup>227</sup> The court remarked that such a bright-line rule would “completely rewrite[] the language of the statutory definition.”<sup>228</sup> Fox also unsuccessfully argued that the operation by this single RS-DV-R user would constitute

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<sup>220</sup> *Id.* at 138.

<sup>221</sup> *The Cartoon Network*, 536 F.3d at 138 (citing 2 NIMMER & NIMMER, *supra* note 171, § 8.14[C][3]) (emphasis omitted).

<sup>222</sup> *Id.* at 138-39 (citing *Redd Horne, Inc.*, 749 F.2d 154 (holding that loading a copy of a movie into a bank of VCRs at the front of a store for viewing constituted a public performance); *On Command Video Corp.*, 777 F. Supp. 787 (holding that transmission of movies to hotel room televisions via an electronic delivery system resulted in a public viewing)).

<sup>223</sup> *Id.* at 138.

<sup>224</sup> *Id.* at 138-39.

<sup>225</sup> *Id.* at 139.

<sup>226</sup> *The Cartoon Network*, 536 F.3d at 133.

<sup>227</sup> *Id.* at 139 (quoting *On-Command Video Corp.*, 777 F. Supp. at 790).

<sup>228</sup> *Id.* at 139.

a public performance based on *Ford Motor Co. v. Summit Motor Products, Inc.*<sup>229</sup> The Third Circuit, in *Ford Motor Co.*, stated that “even one person can be the public” when determining whether a performance is a public or private one.<sup>230</sup> The Second Circuit rejected this argument stating that such an interpretation, which would wipe “the phrase ‘to the public’ out of existence” is inappropriate.<sup>231</sup> Thus, the circuit court reversed the district court’s rulings and allowed the distribution of Cablevision’s RS-DV-R system without a compulsory license.<sup>232</sup> Fox’s petition for certiorari to the Supreme Court was denied.<sup>233</sup>

Overall, the Second Circuit’s ruling, which vacated the district court’s judgment, seems to be consistent with established law regarding direct copyright infringement liability. The court correctly expressed the requirements for a work to be fixed by articulating the two requirements supported by the language of the Copyright Act as well as by Professor Nimmer’s interpretation.<sup>234</sup> Additionally, the Second Circuit adequately described what constituted a direct infringement violation by focusing on what volitional conduct by the actor caused the creation of an unauthorized copy.<sup>235</sup> The court also accurately described the difference between a public and private performance by focusing on the recipient of the particular transmission instead of the particular audience of the initial transmission.<sup>236</sup>

Thus, the Second Circuit, based on existing statutory language, adequately disposed of the issues presented for adjudication. Yet, in order to ensure the continued prosperity and expansion of the creative arts in the United States, new legislation is needed to ensure adequate compensation to the copyright owners for the loss of revenue due to the new unlicensed RS-DV-R service. This remote ser-

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<sup>229</sup> *Id.* (quoting *Ford Motor Co. v. Summit Motor Prods., Inc.*, 930 F.2d 277, 299 (3d Cir. 1991)).

<sup>230</sup> *Ford Motor Co.*, 930 F.2d at 299. Summit was found liable for direct infringement for distributing automobile parts bags with “printed red and black speed cars practically identical” to the automobile parts bags copyrighted and distributed by Ford. *Id.* Summit unsuccessfully argued that a “one-time gift to [one] person” of the automobile parts bag was not considered public. *Id.*

<sup>231</sup> *The Cartoon Network*, 536 F.3d at 139.

<sup>232</sup> *Id.* at 140.

<sup>233</sup> *Cable News Network, Inc.*, 129 S. Ct. 2890.

<sup>234</sup> *The Cartoon Network*, 536 F.3d at 127.

<sup>235</sup> *Id.* at 131.

<sup>236</sup> *Id.* at 134.

vice has the potential to expand rapidly, both nationally and internationally with dangerous implications for a copyright owner.

#### IV. THE CARTOON NETWORK'S EFFECT ON THE COPYRIGHT WORLD

Numerous interested parties submitted *amicus curiae* briefs in support of Fox's certiorari petition,<sup>237</sup> including Major League Baseball,<sup>238</sup> the Screen Actors Guild,<sup>239</sup> American Society of Composers, Authors, and Publishers ("ASCAP") and Broadcast Music, Inc. ("BMI"),<sup>240</sup> Photographers' Unions,<sup>241</sup> Major United States Recording Labels,<sup>242</sup> and the Copyright Alliance.<sup>243</sup> The briefs elaborate on the industry-wide effect the Second Circuit decision had on advertising revenues and its potential impact on the currently licensed automated copyright distribution systems.<sup>244</sup> The court's decision also articulates a blue-print that instructs individuals and companies on how to alter their existing automated copyrighted content distribution systems to avoid licensing fees and provides further economic incentives to these individuals by advocating the use of computerized, rather than human run, copyright distribution systems.<sup>245</sup>

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<sup>237</sup> Petition for Writ of Certiorari, *Cable News Network, Inc.*, 129 S. Ct. 2890 (2009) (No. 08-448), 2008 WL 4484597 [hereinafter *Fox's Petition*].

<sup>238</sup> Brief for Major League Baseball et al. as Amici Curiae Supporting Petitioners, *Cable News Network, Inc.*, 129 S. Ct. 2890 (2009) (No. 08-448), 2008 WL 4819897 [hereinafter *MLB Brief*].

<sup>239</sup> *Screen Actors Guild Brief*, *supra* note 8.

<sup>240</sup> Brief for Broadcast Music, Inc. & Am. Soc'y of Composers, Authors, & Publishers as Amici Curiae Supporting Petitioners, *Cable News Network, Inc.*, 129 S. Ct. 2890 (2009) (No. 08-448), 2008 WL 4843617 [hereinafter *ASCAP Brief*].

<sup>241</sup> Brief for The Picture Archive Council of Am., Inc. et al. as Amici Curiae Supporting Petitioners, *Cable News Network, Inc.*, 129 S. Ct. 2890 (2009) (No. 08-448), 2008 WL 4843619 [hereinafter *Photographers' Brief*].

<sup>242</sup> Brief for Sony BMG Music Entm't et al. as Amici Curiae Supporting Petitioners, *Cable News Network, Inc.*, 129 S. Ct. 2890 (2009) (No. 08-448), 2008 WL 4843620 [hereinafter *Record Label Brief*].

<sup>243</sup> Brief for Copyright Alliance as Amici Curiae Supporting Petitioners, *Cable News Network, Inc.*, 129 S. Ct. 2890 (2008) (No. 08-448), 2008 WL 4887717 [hereinafter *Copyright Alliance Brief*]. The Copyright Alliance consists of "over forty institutional members" including entertainment giants "NBC Universal; . . . Viacom; . . . [and] The Walt Disney Company." See *id.* at \*2-3.

<sup>244</sup> See *supra* notes 240, 241.

<sup>245</sup> See generally *The Cartoon Network*, 536 F.3d 121.

### A. Detrimental Effect on Advertising Revenues

The Copyright Act imposes mandatory statutory licensing for a cable system such as Cablevision.<sup>246</sup> The Copyright Act mandates licenses for any secondary transmission<sup>247</sup> made to the public by a cable system, which includes mandatory licensing for Cablevision.<sup>248</sup> This compulsory license requires that a cable system must keep intact any commercial advertisements transmitted in the primary transmission intact.<sup>249</sup> Congress specifically prohibited the manipulation of any advertisement by a secondary transmitter such as Cablevision, in order “to protect ‘copyright owners whose compensation . . . is directly related to the size of the audience that the advertiser’s message is calculated to reach,’ ” which is based on the number of viewers of a specific copyrighted work.<sup>250</sup> However, Cablevision’s new “RS-DV-R system appears not to include any commercial advertising . . . [that existed] immediately before or after the program being recorded” and that were originally transmitted in the primary transmission by the original transmitter.<sup>251</sup> Therefore, Cablevision is depriving the copyright owners of the commercial and publicity benefits that the owners would normally receive if the original commercial advertisement that was associated with the specific copyrighted program transmission was correctly displayed to a target audience at a particular time.<sup>252</sup>

Cablevision’s RS-DV-R system also enables Cablevision to “

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<sup>246</sup> 17 U.S.C.A. § 111(f)(3) (West 2009) (defining a “cable system” as a “facility . . . that . . . transmit[s] . . . programs broadcast[ed] by . . . [a] television broadcast station[] licensed by the [F.C.C.], and makes [a] secondary transmission[] of such signals . . . by wires, cables, microwave, or other communications . . . to subscribing members of the public who pay for such service”).

<sup>247</sup> *Id.* § 111(c)(1).

<sup>248</sup> *Id.* § 111(f)(2) (stating that a “secondary transmission” done by a “cable system” is a broadcast that “further transmit[s] . . . a primary transmission simultaneously with the primary transmission” or transmits the content “nonsimultaneously with the primary transmission”).

<sup>249</sup> *Id.* § 111(c)(3).

<sup>250</sup> *MLB Brief*, *supra* note 238, at \*19 (quoting H.R. REP. NO. 94-1476 (1976)).

<sup>251</sup> *Id.*

<sup>252</sup> Michael Lewis, *Boom Box*, N.Y. TIMES, Aug. 13, 2000, at 636. The article explains how new DV-R systems cause the value of “prime time [to] vanish[]” along with the “special market value of prime time” commercial airings. *Id.* It has been shown that “[eighty-eight] percent of advertisements in TV programs [saved] by viewers on [the current STS-DV-R systems] went unwatched; [thus] if no one watches commercials . . . there will be no commercial television. *Id.*

'refresh' the [original] advertising that is associated with each show" by editing the content saved on its servers.<sup>253</sup> Thus, Cablevision can receive additional advertising revenues from companies to replace the existing advertisements on the older, recorded program stored on Cablevision's servers with any new advertisements of Cablevision's choosing.<sup>254</sup> For example, Cablevision may have the ability to refresh the commercial for an already released movie and receive additional payments to insert a new advertisement in the stored copy for an upcoming movie release, so this new advertisement is displayed when the RS-DV-R user's subsequent playback is initiated, rather than the out-dated, original movie advertisement that was part of the initial transmission.<sup>255</sup> Thus, Cablevision would be "unjustly enriched . . . at the expense of the copyright owners . . . [and] the actors and writers who created the content" from its receipt of additional advertising payments and subscription fees for the new RS-DV-R without sharing any of these additional revenues with those who created the works and whose livelihood depends on such advertising funds.<sup>256</sup>

The RS-DV-R system may also allow "Cablevision [to] insert ads dynamically," by permitting it to "customiz[e] and updat[e] commercial [advertisements targeted at] different consumers . . . at different times."<sup>257</sup> Such additional capabilities by Cablevision's RS-DV-R enables Cablevision to further increase its advertising revenue by targeting specific RS-DV-R users with particular advertisements based on the genre and type of content stored on Cablevision's server by that user.<sup>258</sup> The additional viewership information, compiled by Cablevision based on the copyrighted programs stored on its servers and monitored by its personnel, is commercially valuable for every marketing and advertising company which bases its commercial ad-

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<sup>253</sup> *Screen Actors Guild Brief*, *supra* note 8, at \*14-15.

<sup>254</sup> Stelter, *supra* note 2.

<sup>255</sup> *Id.*

<sup>256</sup> *Screen Actors Guild Brief*, *supra* note 8, at \*12.

<sup>257</sup> Stelter, *supra* note 2.

<sup>258</sup> Matthew W. Bower, Note, *Replaying The Betamax Case for the New Digital VCRs: Introducing TiVo to Fair Use*, 20 CARDOZO ARTS & ENT. L.J. 417, 453 (2002) (stating that the data compiled by the RS-DV-R system give "studios and advertisers [... the] ability to insert ads to be aired to different viewers at the same time . . . based on an incredibly detailed profile of each viewer").



vertisements for specific products on an individual's preferences.<sup>259</sup> Cablevision can provide such companies, for an additional fee, with the accurate user information they desire, including when and how often a certain demographic watches a certain type of program and Cablevision then "keep[s] all this] money for itself rather than compensating copyright owners."<sup>260</sup>

### B. Detrimental Effect on VOD Licensing and Royalties from DVD Sales

Assuming such a distinction between the VOD and RS-DV-R systems exists,<sup>261</sup> the widespread use of this new recording equipment may undermine the currently licensed VOD system and cause possible further detriment to the sales of DVDs, which reduces the amount of royalties the copyright owners will receive. The new RS-DV-R system would give every Cablevision subscriber, or any other cable provider which may provide similar recording systems, the option to pay an additional monthly fee and download an upgrade to their existing cable-box to record any copyrighted work transmitted by their cable providers for an indefinite period without the cable provider paying additional royalties to the copyright owner of the reproduced work. Thus, any of 170 channels that Cablevision makes available to its subscribers could be recorded for free and stored indefinitely, as opposed to a subscriber's paying for an individual VOD transmission of a work that could only be viewed once or a subscriber's paying for monthly access to a limited VOD-library that only

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<sup>259</sup> See Vivian I. Kim, Note, *The Public Performance Right in The Digital Age: Cartoon Network LP v. CSC Holdings*, 24 BERKELEY TECH. L.J. 263, 270 (2009) ("This [viewership] information [can] be used to provide a very complete and detailed profile of each individual user, giving advertisers the 'Holy Grail' of market research.").

<sup>260</sup> *Copyright Alliance Brief*, *supra* note 243, at \*9.

<sup>261</sup> Brief in Opposition, *Cable News Network, Inc.*, 129 S. Ct. 2890 (2008) (No. 08-448), 2008 WL 4887717 [hereinafter *Cablevision's Opposition*]. Cablevision argued that the VOD system is properly licensed and no licensing was required for the RS-DV-R system as the VOD library's transmissions are public because the copyrighted content is " 'available . . . to anyone willing to pay' " at that immediate time and " 'any member of the public willing to pay is 'capable of receiving' [the] transmission of [the] performance from the [specific] provider[s] copy.' " *Id.* at \*27-28. While in the RS-DV-R system, " 'the universe of people capable of receiving [the subsequent] RS-DV-R transmission is the single subscriber whose self-made copy is used to create that transmission;' " thus, the performance is not a licensable public performance, rather a private one. *Id.* at \*28 (quoting *The Cartoon Network*, 536 F.3d at 137) (internal quotation marks omitted).

contains certain specified titles, where a proportion of these VOD sales goes to the copyright owner pursuant to already existing licenses.<sup>262</sup>

Consequently, individuals may begin to only purchase the RS-DV-R upgrade to record and view any previously transmitted program at their leisure as opposed to purchasing a limited VOD transmission service. As a result, Cablevision may reduce the licensing fees it currently pays or altogether eliminate the entire VOD service to avoid any licensing fees to the copyright owner. A Cablevision subscriber would much rather pay a monthly RS-DV-R fee and purchase additional space on Cablevision's servers to have unlimited recording capabilities than pay for a single transmission of a work from a limited content list that can only be viewed once. Therefore, due to the possible overwhelming use by the subscribers of the new RS-DV-R system that requires no licensing rather than the licensed VOD system, Cablevision could eliminate the licensed VOD system and promote this new, unlicensed recording system to its current subscribers so Cablevision receives the entire subscription fee income.

The new RS-DV-R system may also have a negative effect on DVD sales by significantly reducing the amount of royalties a copyright owner would receive, which is based on the number of copies of the work sold.<sup>263</sup> An individual who purchases the RS-DV-R system would have the possibility to purchase additional server space,<sup>264</sup> giving the subscriber the ability to purchase as much server space as needed to record as many copyrighted works as one wished for an indefinite period of time.<sup>265</sup> Usually, subscribers only desire the individual work until they have watched it. Therefore, the potentially limitless amount of server space available for purchase would allow a user to record an entire season or "marathon" of a particular show instead of watching the show when it was originally aired. This would replace the need to purchase an "on-demand" copy from a VOD library or to purchase or rent the DVD versions of the show from a retail distributor. Thus, Cablevision's system may potentially have an

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<sup>262</sup> *Fox*, 478 F. Supp. 2d at 613.

<sup>263</sup> 2 NIMMER & NIMMER, *supra* note 171, § 8.04[H][1] (describing a typical "royalty" scheme imposed on a licensee of copyrighted work, which requires a per work payment, i.e. a per record or a per DVD).

<sup>264</sup> *Id.* at 619.

<sup>265</sup> Kim, *supra* note 259, at 270 ("With increased memory capacity, RS-DVR users could potentially create a library of recorded programming which they could access on-demand.").

adverse effect on DVD sales by giving an RS-DV-R user the incentive to purchase additional server space rather than purchasing the copyrighted software. This system enriches Cablevision through additional subscription fees and additional server space fees, but does not compensate the copyright owners who spent their resources to create the works that are aired and recorded by the RS-DVR user and who receives royalty payments based on the number of units of their work sold.<sup>266</sup>

The *Screen Actors Guild Brief*, in support of Fox, stated that “[t]he value of a creative work in the entertainment industry is based on revenues earned during discrete windows of exploitation through its lifetime.”<sup>267</sup> For example, the Screen Actors Guild stated that its Guild members receive roughly 36% of their earnings on residuals which are paid throughout the lifetime of a project, and these earnings are solely dependent on the content owners’ ability to maximize revenues from licensing the rights to others.<sup>268</sup> These copyright owners’ livelihoods are based on the residual payments during the lifetime of the creative project, including licensing fees for the cable transmissions of their works and royalties from the sales of their copyrighted works through VOD systems and DVD sales.<sup>269</sup> Widespread use of DV-Rs to reproduce copies of these individuals’ works, without Cablevision’s obtaining licenses for these copies, could severely inhibit the entire creative system. The creative system is based on investors and creative talent estimating “the value of [a] contemplated work [which] is . . . based on projections of potential revenue in . . . exploitation” of each potential market.<sup>270</sup> Such a possible loss in DVD sales due to RS-DV-R usage, the possible reduction or elimination of licensed VOD systems by Cablevision, together with the uncertainty of residual compensation for creative works, may prompt these authors to stop producing additional creative works and will certainly discourage investors from investing in these creative works.

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<sup>266</sup> 2 NIMMER & NIMMER, *supra* note 171, § 8.04[H][1].

<sup>267</sup> *Screen Actors Guild Brief*, *supra* note 8, at \*6.

<sup>268</sup> *Id.* at \*10-11, n.10.

<sup>269</sup> *Id.* at \*2.

<sup>270</sup> *Id.* at \*6.

### C. Blue-Print for Others to Follow to Avoid Licensing or Disavow Current Licenses

The Second Circuit's decision has also "amount[ed] to a blueprint for clever intermediaries to design and operate automated computer systems . . . to evade the need for copyright licenses."<sup>271</sup> As a result of *The Cartoon Network* decision, Fox contended that new, as well as current, "on-demand services will simply adopt the same 'copy then play'" method used by Cablevision.<sup>272</sup> These companies would be able to avoid any licensing or infringement liability by arguing that the machine is "mak[ing] a unique copy . . . as an automatic response to [a customer's] request"<sup>273</sup> without any human interaction, such as the transmission by Cablevision's RS-DV-R system.

This may also cause current on-demand companies to use "[m]ultiple copies . . . , even when a single copy is more efficient"<sup>274</sup> to "evade the 'public' nature of performance" because the single copy transmission would be considered a private performance, one requiring no license.<sup>275</sup> The ruling "provides an incentive" to these companies "to design their systems . . . to minimize the time . . . they retain a copy of the work . . . to claim . . . the cop[y] . . . fall[s] outside the scope of . . . a licensable transaction," such as the buffer copies created by Cablevision's RS-DV-R.<sup>276</sup> Additionally, as long as the "cost of . . . additional server space" to store copyrighted works "is less than the cost of negotiating and paying for a license," these companies will design their on-demand systems based upon Cablevision's model and avoid paying license fees to the copyright owners of the works they transmit.<sup>277</sup>

Amici briefs also point to current on-demand services for the e-book readers Sony Reader and Amazon Kindle.<sup>278</sup> These content

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<sup>271</sup> *Fox's Petition*, *supra* note 237, at \*3.

<sup>272</sup> *Id.* at \*37.

<sup>273</sup> *Id.*

<sup>274</sup> *Id.* at \*38.

<sup>275</sup> *Record Label Brief*, *supra* note 242, at \*24.

<sup>276</sup> *Copyright Alliance Brief*, *supra* note 243, at \*17; *see also* Christopher Vidiksis, Note, *How To Buffer Your Way Out of a Scrape: Potential Abuse of The Cartoon Network v. Cablevision Decision*, 4 BROOK. J. CORP. FIN. & COM. L. 139, 157-59 (2009) (stating that "screen-scraping" is another potential abuse based on *The Cartoon Network* decision).

<sup>277</sup> *Fox's Petition*, *supra* note 237, at \*38.

<sup>278</sup> *See* David Segal, *Gadget Makers Can ID Thieves. Just Don't Ask.*, N.Y. TIMES, Sept.

distributors have already negotiated licenses “to distribute [copyrighted] content . . . via automated processes.”<sup>279</sup> However, if the Cablevision ruling stands, such on-demand copyrighted content service providers which have already obtained licensing may discontinue their licensing or modify their current systems to fall outside a licensable transaction. Such service providers could argue that they are exempt from liability similar to Cablevision, because the “subscriber (rather than the service itself) selects the works to download” and that this work is “delivered by a[n automated] system” responding to a user’s command rather than a system controlled by the content provider.<sup>280</sup> This decision will also “encourag[e] services that [currently] engage in . . . unlicensed copying . . . to adapt their [current on-demand] technology to fit within . . . [this] holding;” further frustrating the exclusive rights of the copyright owner.<sup>281</sup>

Additionally, computerized systems that automatically deliver copyrighted works to the public “are becoming the dominant mode for deliver[y],”<sup>282</sup> and the Second Circuit’s decision expands immunity for all these “businesses that employ computers instead of humans to carry out customer requests.”<sup>283</sup> Yet, the use of automated systems by companies to carry out a user’s request provides these companies with the added benefit of reductions in personnel costs, by championing the use of a machine instead of paid employees, all at the expense of the copyright owners.<sup>284</sup>

Cablevision claimed that the only issue decided by the Second Circuit was “[w]ho ma[de] the cop[y] with the RS-DV-R”<sup>285</sup> system and “[i]n the unlikely event that [this] decision . . . spawns *illegal* co-

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7, 2009, at A1 (explaining that an “Amazon Kindle” is a portable device capable of downloading copyrighted works from an automated book store, and viewing, full-length books electronically, and can also “store hundreds of [books] on a single device”).

<sup>279</sup> *Record Label Brief*, *supra* note 242, at \*11.

<sup>280</sup> *Id.* at \*12.

<sup>281</sup> *Id.* at \*21.

<sup>282</sup> *Fox’s Petition*, *supra* note 237, at \*16 (explaining that “computerized systems” include a service such as Apple’s iTunes, which permits an individual to purchase a copyrighted work through an automated computer system that responds automatically to the “purchase” command of the user and automatically downloads the copyrighted work to the individual’s computer in response to the individual’s “command” without any interaction with a human).

<sup>283</sup> *Id.* at \*28.

<sup>284</sup> *Copyright Alliance Brief*, *supra* note 243, at \*20.

<sup>285</sup> *Cablevision’s Opposition*, *supra* note 261, at \*19.

pying, there will be time enough for [the c]ourt to act.”<sup>286</sup> In its brief, Cablevision only acknowledges the possibility of individuals manipulating their current systems based on court decisions, without recognizing that such a situation has already occurred following the Ninth Circuit’s decision in *A&M Records, Inc. v. Napster, Inc.*<sup>287</sup> Following the court’s ruling in *Napster, Inc.*,<sup>288</sup> *Grokster, Ltd.*<sup>289</sup> and *In re Aimster Copyright Litigation*<sup>290</sup> were decided, which were based on new infringing technologies were developed to exploit the loophole created by the court’s decision in *Napster, Inc.*<sup>291</sup> Although these latter entities were ultimately found liable, such a recent example of the modification of existing infringing technologies based on a judicial ruling supports the contention that individuals and companies continue to take advantage of the court-announced blue-prints to avoid copyright liability.

Subsequently, the recent district court decision of *Cellco Partnership v. American Society of Composers, Authors, and Publishers*<sup>292</sup> applied the framework established by the Second Circuit and denied a copyright owner’s claim to impose additional licensing fees on ringtones<sup>293</sup> sold by Verizon Wireless to its customers.<sup>294</sup> The district court denied ASCAP’s<sup>295</sup> claim that Verizon Wireless publicly

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<sup>286</sup> *Id.* at \*20-21.

<sup>287</sup> 239 F.3d 1004 (9th Cir. 2001).

<sup>288</sup> *Id.* at 1011 (holding Napster liable as a direct infringer of copyrighted works for designing and operating a system that facilitated the transmission of unauthorized sound files between its users).

<sup>289</sup> 545 U.S. at 919-20 (holding Grokster liable as a contributory infringer of copyrighted works for distributing a product that allowed a user’s computers to share files by *directly communicating* with each other’s computers rather than through central servers, as the file distribution system in *Napster, Inc.* had operated).

<sup>290</sup> 334 F.3d 643, 646 (7th Cir. 2003) (finding Aimster liable as a contributory infringer of copyrighted works for the development of software that used America Online Instant Messaging Service Chat-rooms (“AIM”) to facilitate the transfer of copyrighted files with other “buddies” who used the same instant messenger service rather than using a central server like in *Napster, Inc.*).

<sup>291</sup> *Id.* at 649.

<sup>292</sup> 663 F. Supp. 2d 363 (S.D.N.Y. 2009).

<sup>293</sup> *Id.* at 367 (defining a “ringtone” as a “‘digital file of a portion of a musical composition or other sound’ that is . . . played by a customer’s telephone in order to signal an incoming call”).

<sup>294</sup> *Id.* at 373-74.

<sup>295</sup> 17 U.S.C.A. § 101 (explaining that the American Society of Composers, Authors, and Publishers (“ASCAP”) is a “performing right society,” which “licenses the public performance of nondramatic musical works on behalf of [their member] copyright owners” and

performed its copyrighted works and focused on the Second Circuit's ruling in *The Cartoon Network*, which required the court to look at the potential recipients of the ring-tone transmission rather than the "potential audience of the underlying work."<sup>296</sup> The district court ruling was another instance of a corporation, Verizon Wireless, exploiting a court articulated blue-print to unjustly profit from another's copyrighted work by avoiding the payment of additional licensing fees to those who own and actually created the works they sold.

#### **D. New Legislation Necessary to Combat Unjust Enrichment**

The Supreme Court "previously warned that '[t]he promise of copyright would be an empty one if it could be avoided' merely by crafting a creative legal argument."<sup>297</sup> Yet, in *The Cartoon Network*, the Second Circuit "encourages and propagates just such a strategy."<sup>298</sup> The Supreme Court's denial of certiorari, in addition to the district court's decision in *Cellco Partnership*, further strengthens the ruling's precedential value. Yet, there must be a way to adequately compensate the copyright owners for their potential loss in revenue due to the widespread usage of the RS-DV-R system by Cablevision's users as well as the potential use by subscribers of other cable providers that waited until the resolution of Cablevision's suit to determine whether to release their own RS-DV-R systems with licensing.<sup>299</sup> Since the Second Circuit ruled that Cablevision's system required no additional licensing,<sup>300</sup> other cable providers probably will also not negotiate licenses. Therefore, the authors and investors in the copyrighted works, who expended their time, money, and creative ability, lose out, while other corporations unfairly profit from the works created by these individuals. This should not be allowed.

The potential loss in revenue by copyright owners due to Cab-

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distributes these licensing fees to the copyright owner).

<sup>296</sup> *Cellco Partnership*, 663 F. Supp. 2d at 371 (citing *The Cartoon Network*, 536 F.3d at 134-35).

<sup>297</sup> *Copyright Alliance Brief*, *supra* note 243, at \*12 (quoting *Harper & Row Publishers, Inc.*, 471 U.S. at 557).

<sup>298</sup> *Id.*

<sup>299</sup> Reardon, *supra* note 6.

<sup>300</sup> *The Cartoon Network*, 536 F.3d at 140.

levision's RS-DV-R system is similar to the potential loss in revenue that record labels faced with the distribution of new digital audio tape ("DAT") recorders which were capable of creating perfect copies of a musical sound recording.<sup>301</sup> As a result of the introduction of new DAT recorders, the availability of unauthorized and perfectly duplicated copies significantly increased and replaced the "consumer demand for commercially prerecorded music," which these copyright owners distributed.<sup>302</sup> In response to the potential loss in revenue to these copyright owners, Congress passed the Audio Home Recording Act of 1992 ("A.H.R.A."), which imposes a mandatory royalty payment on any company that manufactures and imports DAT recorders or recordable media into the United States.<sup>303</sup> This royalty is based on the number of DAT recorders and recordable media sold by each company.<sup>304</sup> The collected funds are distributed to copyright owners to help alleviate some of these losses.<sup>305</sup>

Like the authors of sound recordings, the owners of the content transmitted by cable systems are subject to similar financial losses because of the recording technology provided by Cablevision and other cable services.<sup>306</sup> Such losses include the potential decrease in current revenues from VOD systems due to cable services' possible reduction or elimination as well as possible losses of additional revenues from DVD sales because a RS-DV-R user possesses ability to record any episode of any program transmitted for an indefinite period, replacing the need to purchase or rent the DVD to catch up on a television show.<sup>307</sup> To avoid or at least limit these potential losses, new legislation similar to the A.H.R.A. imposing a per machine royalty payment on every company which distributes a video recording device in the United States including VCR, STS-DV-R, and RS-DV-R systems, is necessary. Royalty payments would be given to the United States Copyright Office for distribution to copy-

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<sup>301</sup> Justin M. Jacobson, *What is The AARC?*, 56 J. COPYRIGHT SOC'Y U.S.A. 213, 213 (2008); H.R. REP. NO. 102-873(II), at 2 (1992).

<sup>302</sup> H.R. REP. NO. 102-873(II), at 2.

<sup>303</sup> Jacobson, *supra* note 301, at 213; Audio Home Recording Act of 1992, Pub. L. No. 102-563, 106 Stat. 4237, 4240.

<sup>304</sup> Jacobson, *supra* note 301, at 213; 17 U.S.C.A. § 1003(a).

<sup>305</sup> Jacobson, *supra* note 301, at 213.

<sup>306</sup> Jacobson, *supra* note 301, at 213.

<sup>307</sup> *See, e.g., Flava Works, Inc. v. Wyche*, No. 10 CV 0748, 2010 WL 265784, at \*2 (N.D. Ill. June 28, 2010).



right content owners based on viewership ratings. This royalty distribution could also be based on any royalty-sharing formula that these major content distributors negotiate between themselves. If Congress does not implement such widespread statutory change, then the Copyright Royalty Judges should authorize an increase in the current statutory fees that the cable systems currently pay, especially for any cable system that provides such remote recording services, to help alleviate some of the losses the new recording systems will cause.

Based on the potential harm to copyright owners' advertising revenues and the certain erosion of DVD sales, new legislation is needed to adequately compensate copyright owners for the loss in revenue they will face due to the unfettered use of the RS-DV-R system.

## V. CONCLUSION

Technological advancements have created numerous direct copyright infringement liability issues starting with VCRs and evolving to the recent Second Circuit decision regarding Cablevision's RS-DV-R system. In *The Cartoon Network*, copyright owners such as Fox and NBC brought a suit to enjoin distribution of a new RS-DV-R system by Cablevision without appropriate licensing.<sup>308</sup> The district court initially held Cablevision liable for the direct infringement of the copyright owner's exclusive rights.<sup>309</sup> The Second Circuit, however, overturned this decision and absolved Cablevision of any direct infringement liability and the necessity of statutory licensing.<sup>310</sup>

As a result of the Second Circuit decision, numerous interested parties submitted briefs in support of Fox's certiorari petition.<sup>311</sup> The briefs articulated numerous foreseeable ramifications of the Second Circuit's decision finding in favor of Cablevision, including creating a blue-print for future innovators to follow.<sup>312</sup> The court laid the foundation for subsequent cases to absolve other corporations

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<sup>308</sup> *Fox*, 478 F. Supp. 2d at 609-10.

<sup>309</sup> *Id.* at 624.

<sup>310</sup> *The Cartoon Network*, 536 F.3d at 140.

<sup>311</sup> See *supra* notes 238-243.

<sup>312</sup> *Fox's Petition*, *supra* note 237, at \*3.

from additional licenses for copyrighted works.<sup>313</sup> It overlooked the rapid expansion in the DV-R market and how this expansion further adversely affects these copyright owners and the investors who finance these creative works. The court also overlooked Cablevision's potential ability to update existing commercial advertisements in the copy of the programs stored on its servers and receive additional revenues from the additional advertisements it placed in the recorded copies stored on Cablevision's servers.

Additionally, as a result of this decision, companies that currently pay VOD licenses may also change their current automated content distribution systems to a "copy-and-play" model to conform to a non-licensable one. This possibility, combined with the likelihood of consumer-wide usage of the RS-DV-R system instead of the VOD system, may lead Cablevision to discontinue its currently licensed VOD system. The availability of potentially unlimited storage space to store recorded works may also have disastrous effects on DVD sales.

The current statutory language must be altered. New legislation is needed to adequately compensate the content owners for these potential losses in revenues or the current statutory fees that these cable services pay must be increased.

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<sup>313</sup> See *Cellco Partnership*, 663 F. Supp. 2d 363.

